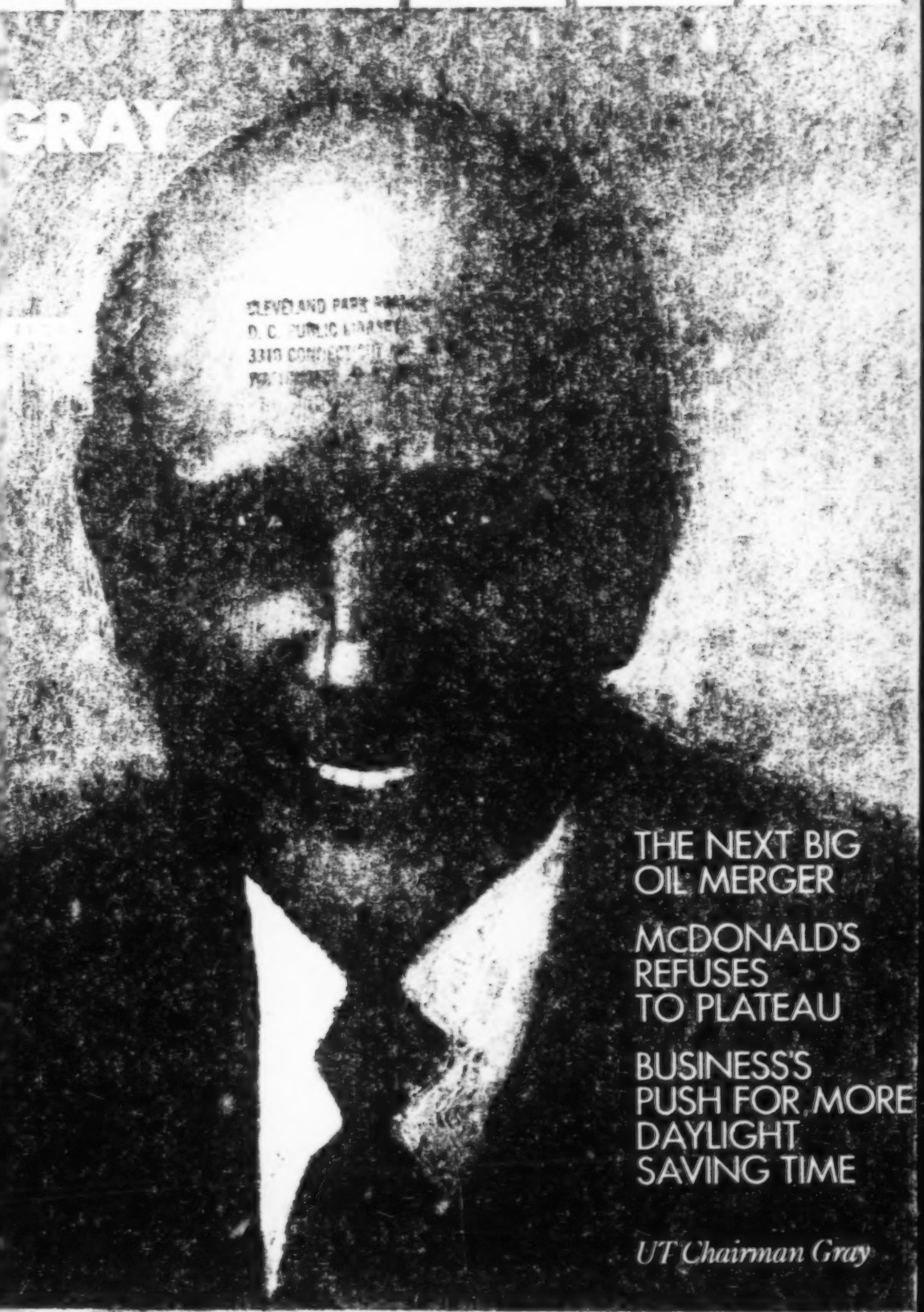
FORTUNE

WHY HARRY GRAY CAN'T QUIT



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THE NEXT BIG OIL MERGER

McDONALD'S REFUSES TO PLATEAU

BUSINESS'S PUSH FOR MORE DAYLIGHT SAVING TIME

UT Chairman Gray

NOVEMBER 12, 1984

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FORTUNE

Politics & Policy

Harry Gray—painted for the cover in acrylics and oil by Gregory Spalinka—has an uncommon determination to keep his hands on the reins. *See page 16.*

MANAGING

Why Harry Gray Can't Let Go at United Technologies 16
More than most executives, he wants to control events. *by Geoffrey Colvin*

Acquiring Without Smothering 22
Newly bought companies need tender, tactful care. *by Myron Magnet*

THE ECONOMY

Fortune Forecast:
- **A Sanguine Outlook for the Year Ahead** 32
- **Steadfast Consumers** 33

CORPORATE PERFORMANCE

McDonald's Refuses to Plateau 34
The burger baron holds true to Ray Kroc's religion. *by Monci Jo Williams*

A Family Rift Roils Seiko 44
A high-tech charger takes on his watch-bound relatives. *by Edward Boyer*

Club Corp. Makes Clubs Pay 58
It keeps them clubby while turning them into businesses. *by Brian O'Reilly*

A Megabanker Sours on American Express 73

Nike Loses Its Footing on the Fast Track 74

SELLING

The Ad Biz Gloms Onto "Global" 77
If it plays in Peoria, it may (or may not) play in Phon Phaeng. *by Anne B. Fisher*

Woolrest: Up from Down Under with Wool Mattress Pads 84

Cut-Rate Surgery Is Luring Customers 88

TECHNOLOGY

The New Glow in Batteries 103
The lowly battery moves into the ranks of high tech. *by Joel Dreyfuss*

The Search for the Digital Recorder 116

MONEY & MARKETS

Manufacturers Hanover Feels a Sting in Paris 143

Frontier Investing 143

POLITICS & POLICY

Business's Push for More Daylight Time 149
Extra sunshine could be a boon to many industries. *by Fern Schumer Chapman*

Asbestos Defendants Try a New Approach 165

Cellular Phone Speedup 165

Scratched DISCs 168

PROFILE

Herbert Siegel's Pyramid to Power 173
Will his deal with Warner Communications pay off? *by Irwin Ross*

People to Watch 184

LOOKING AHEAD

Waiting for the Next Big Oil Takeover 188
Even mighty Mobil could become an acquisition target. *by John Nielsen*

The Editor's Desk 4

News/Trends 6
Oil slips, Motown upgrades junkets, and more.

Follow-Up 9
Labor peace in the auto industry, and more.

Letters to Fortune 13

Keeping Up 203
by Daniel Seligman

Personal Investing 211
Semiconductor stocks. Oppenheimer's offbeat selections. Closed-end funds. Portfolio Talk: Bank analyst Thomas Hanley.
by John J. Curran

Other Voices 227
Why we need auto quotas.
by Lee A. Iacocca

On the Road 239
An office away from home.
by Patricia A. Langan

Books & Ideas 251
The last election mattered.
by David R. Henderson

Index 262

Office Hours 265
When a manager stumbles.
by Walter Kiechel III

MANUFACTURERS HANOVER FEELS A STING IN PARIS

For nearly a decade a likable banker in its French subsidiary collected wads of cash from investors who expected super-high yields. Now the banker is in jail and the money has vanished.

Banker Louis Abollivier *as he was pictured in the MHBN 1976 annual report*

TALL, pear-shaped, and affable, Parisian banker Louis Abollivier inspired a cuddly confidence in customers and friends that earned him the nickname *Nounours*, French for teddy bear. When he told well-heeled acquaintances in Paris and the Caribbean that he could get them tax-free returns of 20%, they flocked to partake. His job as a vice president of Manufacturers Hanover Banque Nordique, a Paris-based subsidiary controlled by America's fourth-largest bank, didn't hurt his credibility. Some investors strolled into MHBN headquarters for over a decade, handing Abollivier envelopes, rolled-up newspapers, and briefcases stuffed with cash. One woman brought more than $200,000 in small bills.

But like many dream investments, this one was too good to be true. Last March MHBN said that no such accounts existed. Abollivier, 48, swallowed a handful of barbiturates in a suicide attempt. Investors might have felt like following suit: several lost more than half a million each, and estimates of the total fleecing range from the equivalent of a few million dollars to $20 million.

Now in jail near Paris awaiting trial on criminal charges, Abollivier says he acted alone. Even so, publicity expected to surround the December trial will embarrass MHBN, which at the least will have to explain how the scam could go on so many years. Manufacturers Hanover of the U.S. hardly needs controversy from this small corner of its realm while battling investors' perceptions that its huge Latin loans have seriously undermined its strength.

Abollivier's angry investors are claiming that MHBN must reimburse them. The bank is a handy target because Abollivier claims the mountain of money is gone, every franc frittered away in a classic Ponzi scheme. He says he paid hefty returns to early investors with money collected from later ones.

MHBN says it is blameless. In the hours after the scam unraveled, Abollivier's colleagues at MHBN demanded a written statement exonerating the bank. Minutes before the police arrived, he wrote that he was merely holding money for friends from the French Caribbean island of Guadeloupe. In June a judge refused a request from the victims for a judgment without trial against the bank; he said the scheme should have stoked suspicions in any investor. Once the trial starts, though, the bank will face some of Paris's most prestigious lawyers, hired by about 70 victims.

A relative latecomer to the crowded French credit market, Manufacturers Hanover in 1972 purchased 60% of Banque Nordique, a joint venture of four Scandinavian banks lured to Paris in the late 1960s to serve such global customers as Saab and Volvo. The minority partners represent each Scandinavian country: Svenska Handelsbanken of Sweden, Den norske Creditbank of Norway, Kansallis-Osake-Pankki of Finland, and Copenhagen Handelsbank of Denmark. With modest assets of $885 million, Manufacturers Hanover Banque Nordique caters mostly to corporate customers, making the scam all the more surprising.

Abollivier joined MHBN in 1973 as head of real estate lending. For more than a decade he quietly managed a portfolio of $5 million to $10 million in construction loans. It was hardly a lofty job, but a taste for the good life gave him a false aura of having family money. Despite his salary of less than $30,000 a year, he lavishly entertained investors at one of France's most celebrated restaurants, Les Trois Marches in Versailles. He and his wife owned a chic apartment near the Eiffel Tower, a country house outside Chartres, and vacation villas on the Côte d'Azur and the island of Saint Bart's. Abollivier recruited most of his investors on frequent trips to the French West Indies. He apparently created the impression that MHBN used the clients' money for lucrative currency trading that would yield the promised returns. They received no periodic account statements. Abollivier simply scribbled his signature and an account number on an MHBN deposit slip, applied a bogus stamp, and handed the client a duplicate.

The bank brought about Abollivier's undoing unwittingly. In 1981 MHBN decided to phase out construction lending. Under pressure to leave, Abollivier handed in his resignation late last year, effective on March 31, 1984. He faced a prickly problem. If he failed to pay off investors before leaving MHBN, they would soon approach the bank directly and discover the scam. His solution was to find a job at another bank where he could ostensibly transfer the phony accounts. But no job materialized. When an investor with a fistful of deposit slips tried to withdraw more than $300,000 from dumbfounded officers at MHBN, the game was over. — **Shawn Tully**

FRONTIER INVESTING

Wanna buy Chilean stocks? A World Bank affiliate will help.

WHEN THE Korea Fund was launched last August, few people noticed that one of the lead underwriters was a new player in Wall Street's game—the International Finance Corp., an affiliate of the World Bank. With such old-timers as First Boston and Lehman Brothers, the IFC co-managed the

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$60-million public offering, which gave U.S. investors their first chance to buy Korean stocks without a lot of red tape. The IFC seems to be in the underwriting game to stay: it plans to underwrite two similar funds next year.

The Korean deal meets two prime IFC objectives reflected in its 1956 charter: to help the economies of the developing world and to make money. The corporation made $600,000 by underwriting the Korea Fund and selling shares outside the U.S. The IFC is backed by the U.S. and some 125 other shareholder nations, which earned $26 million on $774 million of shareholders' equity in the last fiscal year.

Wall Street likes having the IFC as a partner because the international body can help open foreign markets to outside investors. Many nations discourage foreign stock ownership and set up bureaucratic mazes that hinder investment. The IFC's Capital Markets Department, which has good relations with finance officials in developing countries, can help smooth the way. Says Capital Markets director David Gill, 58, "Developing countries are beginning to realize foreign investment is a two-way street." Instead of viewing outside capital as a threat to local control, some recognize it is a way to raise more money and import financial expertise.

With a taste of success from the Korea Fund—shares were recently trading 18% above their $12 offering price—Capital Markets has been intensively studying the stock markets of other countries. The IFC is looking for those that are big and liquid enough to absorb foreign capital without sending prices sky high. Some likely candidates: Brazil (where listed stocks were worth $13 billion at the end of 1983) and India ($8.5 billion). While stock markets in the less developed world are volatile, IFC research (see table) reveals that many have had excellent returns, even after conversion to U.S. dollars.

To channel investment into small, tricky stock markets, the IFC is talking about teaming up with Templeton Investment Counsel, an organization affiliated with Bahamian-based John Templeton, 71, whose investment record is among the best in the business. Some markets that might be represented in a fund co-sponsored by Templeton Investment and the IFC are Jordan, Chile, and Argentina. The idea is that trading in each of these markets is too thin to support a one-country fund, but that a pooled fund could represent a sensible risk.

Sometimes the markets' volatile results seem to defy logic. For example, despite the two countries' troubles, Argentina's stock market rose 125% in 1983 and Brazil's a thundering 239%—again, measured after converting to dollars. Templeton's explanation: inflation forced Latins to look for ways to get out of currency, sending a flood of money into stocks.

The IFC is also working with experts who channel seed capital into new enterprises. With TA Associates, a Boston venture firm, and Orange-Nassau, a Dutch holding company, Capital Markets has just set up a $40-million venture capital project for Southeast Asia. The fund has already invested in a company that processes clay in Malaysia and an electronics manufacturer in Singapore, and is evaluating a word-processing system for Chinese characters. Companies such as Monsanto, American Can, and First National Bank of Boston have invested in the fund to get access to new ideas and products in one of the most rapidly growing corners of the globe.

—Brian Dumaine

LESS DEVELOPED STOCK MARKETS
1976-83 TOTAL RETURN TO INVESTORS

	AVERAGE ANNUAL RETURN	BEST YEAR	WORST YEAR
Chile	+27.7%	1977 +146.3	1982 −52.1
S. Korea	+21.5%	1977 +114.2	1980 −26.5
India	+20.4%	1978 +51.2	1982 −5.1
Argentina	+18.7%	1979 +233.6	1980 −72.2
Jordan*	+18.7%	1978 +53.4	1983 +6.5
Brazil	+16.7%	1983 +239.3	1979 −12.5
Thailand	+14.6%	1977 +187.7	1979 −40.7
Zimbabwe	+0.8%	1979 +178.7	1981 −56.7
Mexico	−0.6%	1983 +170.2	1982 −79.8
Greece	−5.1%	1977 +33.6	1983 −36.9

*1978-1983. SOURCE: IFC

Third World Capitalism

From 1976 through 1983, when Standard & Poor's index of 500 U.S. stocks rose at an annual rate of 7.9%, many stock markets in the less developed world did better. But the smaller markets are roller coasters. (Returns were calculated after conversion to U.S. dollars.)